

Fiscal Services Division

Legislative Services Agency

Fiscal Note

HF 2233 - Web Search Portal Business Sales and Property Tax Exemption (LSB 6471 HV.1)
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Fiscal Note Version - Revised

Description

House File 2233, as passed by the House, provides a sales and use tax exemption on specified equipment used in the operation and maintenance of a web search portal business. Qualifying businesses must be located in Iowa and make a minimum investment of \$200 million within the first six years of operation in Iowa. In addition, the business must purchase, option, or lease land in Iowa by December 31, 2008.

The Bill also provides a property tax exemption for property utilized by a web search portal business that qualifies for the provisions for the sales and use tax exemption.

Background

House File 912 (Web Search Portal Business Sales and Property Tax Exemption Act) passed during the 2007 Legislative Session provided tax exemptions for businesses with a primary function of operating web search portals. This Bill expands the tax exemptions to businesses that operate a web search portal business, but not as the primary business function.

Assumptions

The following assumptions were used to estimate the fiscal impact:

- For this analysis, assumes one facility at a total cost of \$300.0 million will be built. Of that amount, 8.3% will be invested in land, 25.0% will be invested in the building structure, and 66.7% will be invested in computers, servers, and other equipment.
- Sixty percent of the construction will occur in 2009 and the remaining 40.0 % will occur in 2010.
- Sixty percent of the equipment will be installed during 2010 with additions being made yearly at 11.9% through 2016 when full capacity will be reached.
- Fifty percent of the investment in building and exterior equipment will be from labor and other nontaxable items.
- Section 423.3(47), Code of Iowa, currently exempts computer servers from sales and use tax. This estimate assumes that 90.0% of the servers and other technology equipment are currently exempt from the sales and use tax.
- The State sales tax rate is 5.0%. Beginning July 1, 2007, the estimated State-wide local option sales and services tax is 1.6% (includes both the county and school district local options sales tax).
- Converting sales and use tax years to fiscal years assumes 48.0% of the tax year impact will be realized in the same fiscal year and 52.0% of the tax year impact will occur in the subsequent fiscal year.
- For property tax purposes, the investment in building structures and the land on which they are located will remain subject to property tax. Of the building structures, this assumes that 20.0% represent environmental control equipment that will be made exempt under this proposal. All of the computers, servers, and related equipment that is currently exempt from sales and use tax or made exempt from sales and use tax by this proposed legislation, would be exempt from property tax. Section 427B.17(2), Code of Iowa, currently exempts computers and machinery and equipment from property tax. Any property tax impact would result beginning in FY 2012.

- Local jurisdictions may provide property tax incentives. This assumption does not include any local property tax incentives.
- New property tax exemptions will result in an increase in State aid to school districts where the uniform levy is \$5.40 per \$1,000 of taxable valuation. The FY 2007 Statewide commercial property levy rate was \$37.67 per \$1,000 of taxable valuation and is assumed to increase by 1.8% per year.
- The building will be assessed beginning in 2010. Taxes payable based on that assessment would begin in FY 2012.
- Iowa's share of energy use by data processing, hosting, and related services during 2006 was approximately 1.7% of the national total. Energy usage by these types of facilities is projected to increase at an annual rate of 11.8% through FY 2012 for this analysis.
- Assumes the business will locate in an area that has the required infrastructure to support a web search portal business.
- At full capacity, the facility will consume approximately 800 million kilowatt hours of electricity per year. During the first year of operation (2010), the facility will operate at 60.0% of capacity. Electricity use is projected to grow at 11.9% per year.
- Average commercial electricity rates for Iowa were approximately 6.84 cents per kilowatt hour. The estimated price of electricity is assumed to increase by 1.5% per year.
- The estimated fiscal impact does not take into account any new economic activity that may result from the proposed legislation.

Fiscal Impact

The overall fiscal impact is based on the above assumptions and reflects the impact on the State General Fund and local taxes through FY 2012. The fiscal impact may be adjusted linearly if the number of facilities or total investment differs from the assumption.

There will be no fiscal impact in FY 2008. The estimated fiscal impact of HF 2233 for FY 2009 through FY 2012 resulting from the tax incentives is provided in the table below.

Estimated Impact Due to HF 2233 (Dollars in Millions): Based on a \$300.0 Million Investment

State General Fund	FY 2009	FY 2010	FY 2011	FY 2012
Sales and Use Tax	\$ - 0.6	\$ - 2.0	\$ - 2.4	\$ - 2.0
Uniform Levy Replacement for School Aid	\$ 0.0	\$ 0.0	\$ 0.0	\$ - 0.1
Total General Fund Impact	\$ - 0.6	\$ - 2.0	\$ - 2.4	\$ - 2.1

Local Tax Impact	FY 2009	FY 2010	FY 2011	FY 2012
Local Option Sales and Services Tax	\$ - 0.2	\$ - 0.7	\$ - 0.8	\$ - 0.7
Local Property Tax	\$ 0.0	\$ 0.0	\$ 0.0	\$ - 0.4

Sources

Iowa Department of Revenue

/s/ Holly M. Lyons

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.